

Message Text

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C O N F I D E N T I A L MOSCOW 2700

USDOC FOR MARAD AND BEWT

E.O. 11652: GDS
TAGS: EWWT, EEWT, ENRG, UR, US
SUBJECT: INTEREST IN POSSIBLE SOVIET OIL SALES TO U.S.

SUMMARY. RANKING LOCAL US OFFICIAL ON US-USSR TRADE AND ECONOMIC COUNCIL HAS INFORMED US OF HIS EFFORTS TO FACILITATE SALES OF SOVIET OIL TO MAJOR US OIL COMPANIES AS A MEANS OF PROMOTING US EXPORTS. IDEA IS TO PERSUADE SOVIETS THAT OIL SALES WOULD PROVIDE COMPENSATION FOR LARGE CURRENT IMBALANCE IN ILATERAL TRADE AND TAKE SOME HEAT OFF US FIRMS TO ACCEPT UNATTRACTIVE COMPENSATION ARRANGEMENTS. US COMPANIES ARE SAID TO BE INTERESTED IF PRICE IS RIGHT, BUT CHANCES FOR AGREEMENTS BEYOND CURRENT JOC OIL PURCHASE OF 1.2 MILLION TONS WILL DEPEND IN PART ON SUCH CONSIDERATIONS AS HIGH TRANSPORTATION COSTS FROM THE USSR. END SUMMARY.

1. RICHARD O'BRIEN, SENIOR VICE PRESIDENT, US-USSR TRADE AND ECONOMIC COUNCIL, REQUESTED A MEETING WITH E/C COUNSELOR AND EMBOFF ON FEBRUARY 25 TO DISCUSS TERMS OF US-USSR MARITIME AGREEMENT, SPECIFICALLY IN RELATION TO OIL SHIPMENTS FROM THE USSR TO THE US. O'BRIEN RELATED THAT HE HAS BEEN IN TOUCH
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WITH REPRESENTATIVES OF MAJOR US OIL COMPANIES (HE MENTIONED STANDARD OF INDIANA, EXXON, AND MOBIL) ABOUT POSSIBLE PURCHASES OF SOVIET OIL. THE COMPANIES, HE SAID, ARE INTERESTED IF THE PRICE IS RIGHT.

2. IN VIEW OF PROBLEM CONFRONTING US EXPORTERS DUE TO SOVIET DISCONTENT ABOUT LARGE IMBALANCE IN BILATERAL TRADE, O'BRIEN

THINKS SUCH OIL PURCHASES AGREEMENTS COULD BE PLAUSIBLY PRESENTED TO THE SOVIETS AS A FORM OF COMPENSATION. THIS POINT COULD BE USED TO ALLEVIATE SOVIET PRESSURE ON US BUSINESSMEN TO ACCEPT SOVIET PRODUCTS UNDER COMPENSATION DEALS OR COME UP WITH CONCESSIONARY CREDIT TERMS IF AGREEMENTS ARE TO BE CONSUMMATED. O'BRIEN RAISED OIL PURCHASE IDEA WITH DEPUTY MINISTER OF FOREIGN TRADE SUSHKOV, WHO, ACCORDING TO O'BRIEN, RESPONDED POSITIVELY, PROVIDED APPROPRIATE TERMS WERE ARRANGED. SUSHKOV EXPRESSED CONCERN, HOWEVER, THAT THE OIL ACTUALLY BE MARKETED IN THE US.

3. WITH REGARD TO PRICE, O'BRIEN, WHO HAS ALSO TALKED WITH OFFICIALS OF SOYUZNEFTEEKSPORT, SAID THE SOVIETS WERE ASKING \$12.50 PER BARREL PLUS \$1.20-1.50 FOR TRANSPORT. THIS, HE STATED, WAS ABOUT 10 PERCENT ABOVE LAST YEAR'S OPEC PRICE AND ABOUT 5 PERCENT HIGHER THAN PRESENT SAUDI PRICES. O'BRIEN SAID THE SOVIETS WERE CAUTIOUS, BUT DID INDICATE THAT OIL WAS AVAILABLE.

4. WHEN WE ASKED O'BRIEN WHY THE AMERICAN COMAPNIES WOULD WANT TO BUY SOVIET OIL AT A PRICE HIGHER THAN THE CURRENT SAUDI RATE, O'BRIEN SAID HE INFERS FROM DISCUSSIONS WITH KNOWLEDGEABLE SOVIET OFFICIALS THAT THEY ARE DISCOUNTING THEIR OIL. HE THOUGHT THIS MIGHT HAVE BEEN THE CASE WITH THE RECENT JOC OIL PURCHASE OF 1.2 MILLIONS TONS OF OIL; ALTHOUGH SOVIETS WOULD NOT ADMIT IT. O'BRIEN FELT, HOWEVER, THAT THE CHANCES OF ANY NEW AGREEMENTS WERE SMALL SINCE THE US FIRMS WOULD BE UNLIKELY TO BOTHER UNLESS THE TERMS WERE ATTRACTIVE. O'BRIEN SAID THAT TWO OR PERHAPS THREE SHIPMENTS UNDER THE JOC OIL ARRANGEMENT HAVE ALREADY ARRIVED IN CORPUS CHRISTI, TEXAS.
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5. WE, IN TURN, BRIEFED O'BRIEN ABOUT THE TERMS OF THE MARITIME AGREEMENT, POINTING OUT THAT OIL SHIPMENTS TO THE US FROM THE USSR UNDER ANY SUCH OIL PURCHASE AGREEMENT WOULD BE COVERED BY THE TERMS OF THE MARITIME AGREEMENT AND THAT US SHIPS WOULD BE ENTITLED TO THEIR MINIMUM ONE-THIRD SHARE. WE ALSO REVIEWED THE CURRENT PROBLEM WITH THE DEFINITION OF THE TERM "BILATERAL CARGO" UNDER THE AGREEMENT, EMPHASIZING THAT THE PROBLEM WAS NOW TAKING CONCRETE FORM AS A RESULT OF THE JOC OIL DEAL.

6. COMMENT: WE BELIEVE THAT O'BRIEN CAME AWAY FROM THE MEETING WITH A CLEAR UNDERSTANDING OF RELATIONSHIP OF MARITIME AGREEMENT TO POSSIBLE SOVIET OIL SALES TO THE US. WE ALSO PICK UP FREQUENTLY SIGNS THAT SOVIETS ARE DISTRESSED ABOUT BILATERAL TRADE IMBALANCE, BUT THERE ARE SOME OBVIOUS DIFFICULTIES IN USING OIL AS A MEANS OF COMPENSATION. FIRST OF ALL, IT WILL BE HARD FOR SOVIETS TO SELL OIL TO US AT COMPETITIVE PRICES, UNLESS THEY FOREGO A PORTION OF THEIR PROFIT. THEY APPEAR TO HAVE MORE THAN ADEQUATE HARD CURRENCY DEMAND FOR

THEIR AVAILABLE CRUDE OIL FROM COUNTRIES CLOSER TO USSR,
WHERE TRANSPORTATION COSTS WOULD BE LOWER. SECOND, WHILE SALE
OF SOVIET OIL TO US WOULD CERTAINLY HELP THE BILATERAL TRADE
IMBALANCE, IT COULD PROVE DIFFICULT TO APPLY IT IN PRACTICE
AS COMPENSATION FOR SPECIFIC AND UNRELATED US EXPORTS TO USSR.

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